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December 16, 2003

DEC 16 2003

Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RE: ***An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Kentucky Utilities Company***
Case No. 2003-00334 √

An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Louisville Gas and Electric Company
Case No. 2003-00335

Dear Mr. Dorman:

Enclosed please find and accept for filing two originals and five (5) copies each of Louisville Gas and Electric Company's and Kentucky Utilities Company's Initial Requests for Information to the Attorney General in the above-referenced matters. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copy of this letter and return it to me in the self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Yours very truly,

Kendrick R. Riggs

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Parties of Record

293042.01

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

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PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION PURSUANT TO KRS 278.260 OF THE EARNINGS SHARING MECHANISM TARIFF OF KENTUCKY UTILITIES COMPANY	))))	**CASE NO. 2003-00334**

AND

AN INVESTIGATION PURSUANT TO KRS 278.260 OF THE EARNINGS SHARING MECHANISM TARIFF OF LOUISVILLE GAS AND ELECTRIC COMPANY	))))	**CASE NO. 2003-00335**

LOUISVILLE GAS AND ELECTRIC COMPANY'S AND KENTUCKY UTILITIES COMPANY'S INITIAL REQUESTS FOR INFORMATION TO THE ATTORNEY GENERAL

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") submit their initial set of requests for information to the Attorney General ("AG"). As used herein, "Documents" include all correspondence, memoranda, notes, maps, drawings, surveys or other written recorded materials, whether external or internal, of every kind or description, in the possession of or accessible to the AG, its witnesses or its counsel.

1) In reference to Dr. Weaver's statement at page 10, line 22 that factors other than leverage affect risk, indicate the five most important other factors that affect risk.

2) In reference to Dr. Weaver's discussion of KU's common equity ratio at pages 12-14:

  a) Explain what Dr. Weaver means when he states "provided that the same amount of equity is repurchased" at page 12, line 13.

b) Explain what Dr. Weaver means when he states "to purchase equity from the company's owners" at page 14, line 8.

c) Explain the calculation on page 12, line 13 and indicate the source of the data.

3) In reference to Dr. Weaver's price-earnings and common equity ratio analysis described on pages 9-13 and Schedule 13:

a) Indicate what issues of Value Line the price-earnings data were taken from and provide a copy of each.

b) In the price-earnings ratio, over what time period is the price measured.

c) In the price-earnings ratio, what period do the earnings per share reflect.

d) Explain why investors seem to be relatively indifferent to changes in the equity ratio when the equity ratio is between 35 and 45 percent, as shown on Schedule 13.

e) In reference to Dr. Weaver's statement at page 11, lines 20-22 concerning use of the raw data to construct the graphs, provide the graph constructed using raw data, rather than moving averages.

4) In reference to Dr. Weaver's discussion of a 50 percent target equity ratio and a 52.5 percent cap on page 8 of his testimony:

a) Does Dr. Weaver also recommend that if the equity ratio drops below 47.5 percent, it should be reset at 50.0 percent?

b) If the answer to (a) is negative, provide an explanation of why Dr. Weaver would not make such a recommendation.

c) If the answer to (a) is negative, wouldn't the asymmetry in his proposal increase the Companies' risk? If not, explain why not.

5) In reference to the "Percent Electric Revenues" shown on Schedule 12:

a) Specify what year these data reflect.

b) Specify what financial data are reflected in the denominator of this ratio.

c) Provide, for each company in the two comparison groups the electric revenues and the data that make up the denominator in this ratio.

d) Provide, for KU and LG&E, the electric revenues and the data that make up the denominator in this ratio.

6) In reference to Dr. Weaver's assumption in a footnote on Schedule 12 that LG&E and KU would have a B++ Value Line Financial Strength Rating:

a) Provide a complete explanation of the basis for this assumption.

b) Provide any data or calculations used by Dr. Weaver in reaching this conclusion.

7) Separately for each column (i.e., Financial Strength Rating, Equity Ratio, Percent Electric Revenues and Average) on Schedule 12:

a) Provide an explanation of why each factor was used.

b) Indicate whether a higher number in the column indicates higher or lower risk to the company in question and explain how Dr. Weaver reaches this conclusion.

8) In reference to Dr. Weaver's statement on page 12, lines 19-20, indicate why the interest rates on utility bonds might increase by an amount greater than Treasury notes might increase.

9) In reference to Schedules 17-28, provide the interest, dividends and earnings figures used in the calculations for each company.

10) In reference to the 8 percent interest rate discussed at page 28, line 17, indicate the basis for using this level of interest rate.

11) In reference to Schedules 29 and 30:

a) For each factor that represents a 3-year average, provide the individual yearly figures for each company.

b) Explain how "Times Interest Earned" is calculated.

c) Provide the calculation of Times Interest Earned for DTE Energy, KU and LG&E.

12) In reference to Dr. Weaver's relative risk analysis on pages 36-37:

a) In reaching the conclusion concerning the relative riskiness of KU and LG&E versus their respective comparison groups, did Dr. Weaver weight each factor equally?

b) If not, which factors were weighted more?

c) If the factors were not weighted equally, provide the weights Dr. Weaver placed on each of the factors.

13) In reference to Dr. Weaver's statement at page 42, lines 14-16 that the DCF constant growth model has greater use by participants in the capital market than the multi-stage DCF or the bond-yield-risk premium models:

a) Provide all studies, documents, surveys, etc. relied upon by Dr. Weaver in making this statement.

b) Does Dr. Weaver claim that the DCF constant growth model has greater use by participants in the capital market than the CAPM method? If so, provide all studies, documents, surveys, etc. relied upon by Dr. Weaver to support this contention.

14) In reference to Dr. Weaver's statement at page 42, lines 20-22:

a) Define "quality of beta estimates."

b) Provide all texts, financial journal articles, etc. relied upon by Dr. Weaver in making this statement.

15) In reference to Dr. Weaver's Schedule 38, provide individual-company cost of equity calculations for each of the growth rates utilized.

16) Provide a copy of the source document for each of the four projections for each company shown on Schedule 35.

17) Explain how the closing stock prices shown on Schedules 36 and 37 are "adjusted."

18) In reference to Schedules 39-40, provide a computer disc showing all data and calculations underlying the calculation of internal rate of return. (All formulas should be reflected on this computer disc, including those for the calculation of the present value of the perpetuity and the calculation of the internal rate of return.)

19) In reference to Schedule 43, provide the relevant pages from each source used in deriving the forecasts and projections in items 2-7 on that schedule.

20) In reference to Schedules 44-49:

a) Provide a computer disc with all data and calculational formulas underlying these schedules.

b) Explain why Dr. Weaver ended the analysis in 2001, rather than going through 2002.

c) Explain why Dr. Weaver used only nine holding periods, while in past testimonies he has used ten.

d) Is it Dr. Weaver's opinion that investors would give the same weight to a return achieved, for example, between 1994-1995 compared with a return achieved in 2000-2001? Explain the response.

e) Provide a copy of the Standard & Poor's *Stock Reports* dated November 30, 2002 for each company.

f) Provide a copy of the most recent Standard & Poor's *Stock Reports* for each company.

g) Provide a copy of the source from which the yields on Treasury securities were taken.

21) In reference to the risk adjustment shown on page 54, line 11, explain in detail how the figures for KU and LG&E were derived. Provide all calculations, data, assumptions, etc. in reaching the conclusions indicated.

22) Provide the attachment deriving the DCF model for various holding periods discussed at the bottom of page 7 of Dr. Weaver's Appendix II.

23) Explain why Dr. Weaver uses a 2001-2002 average on Schedules 17-28, but uses a 2000-2002 average on Schedules 29-30.

24) In reference to Schedules 39 and 40:

a) Explain how the convergence from current growth to growth in 2007 is derived and provide all assumptions and calculations used.

b) If different convergence assumptions are used for different companies, explain why this is so.

c) Explain how the 2002-2003 growth rate is calculated and provide all assumptions and data underlying the calculation.

25) Explain what changes in risk have occurred for KU to lead Dr. Weaver to recommend a 50-100 basis point lower cost of equity for KU compared with LG&E when the Commission, less than three years ago, determined that both Companies had the same required return.

26) Throughout his testimony Dr. Weaver utilizes the equity ratio of 59.6% for KU. Please provide the calculation of the equity ratio using the current methodology of adjusting the capitalization for Environmental Surcharge costs as approved in Case Number 2003-068.

27) Why didn't Dr. Weaver utilize the current methodology for adjusting the capitalization for Environmental Surcharge costs for KU?

28) Throughout his testimony Dr. Weaver utilizes the equity ratio of 50.26% for LG&E. Please provide the calculation of the equity ratio using the current methodology of adjusting the capitalization for Environmental Surcharge costs as approved in Case Number 2003-236.

29) Why didn't Dr. Weaver utilize the current methodology for adjusting the capitalization for Environmental Surcharge costs for LG&E?

30) On lines 11-12 of page 27 Dr. Weaver states that using cash flows including changes in working capital provides better information for the analysis. Explain why the proceeds from the sale of accounts receivable associated with the accounts receivable securitization program of KU and LG&E should be included in cash flow from operations rather than cash flows from financing if the balances outstanding under the accounts receivable securitization program are considered as debt in determining the capital structure of the companies for purposes of the ESM.

31) What adjustments, if any, did Dr. Weaver make to the capital structure of LG&E and KU to incorporate long-term purchased power obligations that are considered to be debt equivalents by the rating agencies?

Dated: December 16, 2003

Respectfully submitted,

Kendrick R. Riggs

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COUNSEL FOR LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Initial Requests for Information was served on the following parties of record this 16th day of December 2003, by mailing a copy thereof, postage prepaid, through the U.S. Mail to:

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